

Monte Carlo Rendez-Vous: 11 September 2012
Regulatory developments, and Adequacy of
Capacity offered on the market and the
demand for insurance and reinsurance

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Current State of the Reinsurance Market

- ‘The best of times, the worst of times ...’

Best of Times

- Resilience of industry.
- Industry’s Performance during the financial crisis.
- 2011: a year of catastrophes (US\$105 billion)
 - Reinsurance market functioned well. A real life stress test.
 - Affected countries’ recovery assisted by industry payments.
- Reinsurance capital at an all time high (\$480 billion).

2011 Catastrophe losses: Reinsurance

Jurisdiction	Insured losses	Reinsured losses	Estimated Reinsured share	Non-domestic Reinsured share
Australia	\$8bn	\$3.5bn	44%	90%
New Zealand	\$17bn	\$12.5bn	73%	100%
Japan	\$35-30bn	\$12-14bn	40%	98%
Thailand	\$15-\$20bn	\$12bn	60%	95%
Chile	\$8.5bn	\$8bn	95%	100%
2011 events	\$75-85bn	\$40-42bn	54% average	96% average
2011 + Chile	\$83.5-93.5bn	\$48-50bn	62% average	97% average

Source: AIBR/Insurance Europe/RAA

Current State of the Reinsurance Market (cont'd)

The Worst of Times

- Substantial global reinsurance capacity – or too much?
- Rate rises are too small and limited to certain classes of business.
- Investment returns remain very low.
- Recessionary pressures on insureds
- But temptation to cut rates must be resisted.
- The reinsurance industry needs to play the role of a 'responsible citizen'.

Regulatory Environment

- Regulatory environment remains in flux.
- Banking issues continue to shape financial services regulatory environment.
- But insurance has a different business model from banking.
- Many unconcluded regulatory debates
 - Solvency II (internal models)
 - ComFrame
 - GSIIIs
 - Statutory Collateral
- We must continue to engage actively in these debates.
- Real risk of higher regulatory, compliance and capital costs.

Concluding Comments

- ‘A Tale of Two Cities’ concludes with a death at the guillotine.
- How will it end for us?
- Our fate is largely in our own hands.
- Industry needs to continue to:
 - Participate in ongoing regulatory and legislative debates
 - Assess and price risk appropriately.

